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SUBJECT: 2004: FRENCH MACROECONOMIC PERFORMANCE

[1](#)1. SUMMARY: France enjoyed a moderately good year in 2004 in terms of macroeconomic performance, advances in economic policy, and economic stability. Job growth remains the economy's major weakness, but modest GDP growth did help the government to maintain fiscal restraint and the private sector to post respectable gains. END SUMMARY

MACROECONOMIC PERFORMANCE

[1](#)2. Although it will be a while before the GOF finalizes all official statistics, preliminary estimates indicate France enjoyed a relatively positive year in 2004. Gross domestic product (GDP) totaled around 1.5 billion euros. The estimated real (inflation-adjusted) growth rate of 2.1 percent would be the best performance since CY 2000, although such growth lags behind the U.S. figure of 3.9 percent annual GDP growth. Despite an environment prompting households to exercise caution, consumption is thought to have increased around 2.1 percent, slightly faster than purchasing power (which increased around 1.6 percent compared with 0.5 percent in 2003), primarily due to increased expenditures for manufactured goods. Unemployment remained stable but high at around 9.9 percent. Inflation edged up to around 2 percent. In 2004, France registered a small trade deficit (2 billion euros in the first ten months). Imports rose steadily, but exports increased only moderately, mainly due to the higher euro.

[1](#)3. Central government spending was flat. Public sector debt increased only slightly, but remained high at 64 percent of GDP. The public deficit was 3.6 percent of GDP (versus an EU target of 3 percent).

[1](#)4. As for financial markets, at year-end 2004, Euronext (the conglomerate owning the Paris, Amsterdam and Brussels stock exchanges) ranked fifth among world markets with a stock-market capitalization of USD 1.8 trillion, and in recent weeks has tabled an offer to buy the London stock exchange. The CAC 40 index posted a 7.9 percent growth rate for the year, and finally regained and surpassed the market value it had lost in the 2000-2001 recession. At the end of December 2004, the total market capitalization of the 1,333 companies listed on Euronext was up 9.1 percent over 2003.

ECONOMIC POLICY

[1](#)5. The key features of France's economic policy in 2004 included the GOF's effort to restrain central government spending, and the cautious continuation of its "partial privatization" policy (not necessarily selling outright state-owned enterprises, but opening up firms to private investors, even to the extent of ceding majority shares). The Prime Minister heralded health care reform as a major achievement in 2004, although under the bill passed, the French health care system is not supposed to achieve financial balance until 2007. Late in the year (subsequent to significant gains by left-leaning parties in local elections), the GOF trumpeted "social cohesion" as a major goal. The term social cohesion is the French right-of-center equivalent to "compassionate conservatism," involving projects aimed at breaking down ethnic ghettos, integrating immigrants, overcoming poverty, reintegrating troubled neighborhoods, and fighting against gender discrimination. The bill envisions spending 13 billion euros over five years. Since the "social cohesion" bill passed late in the year, no major social projects were begun in 2004, and the GOF made no measurable progress in the bill's chief performance indicators, namely reducing unemployment and alleviating the lower-income housing shortage.

COMMENT

16. 2004 was a mixed year for the French economy. Modest growth was an improvement over previous performance, but employment, the Euro/dollar relationship, domestic demand and the public deficit remain areas of concern. Economic reform steps were modest, and France continues to advance its privatization agenda, if cautiously. Government officials predict 2005 growth of 2.5 percent, although most economists foresee growth more on the order of two percent. The key area to watch is whether, as the 2007 presidential elections get closer, the GOF is prepared to tackle remaining economic reforms.

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